



**DEFENSE LOGISTICS AGENCY**  
**THE DEFENSE CONTRACT MANAGEMENT COMMAND**  
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REPLY  
REFER TO

AQOF

JUL 1 1997

**MEMORANDUM FOR COMMANDERS, DEFENSE CONTRACT MANAGEMENT  
DISTRICTS**

**SUBJECT: DCMC Memorandum No. 97-019Expediting Implementation of Value Engineering  
Change Proposals (VECPs) (INFORMATION)**

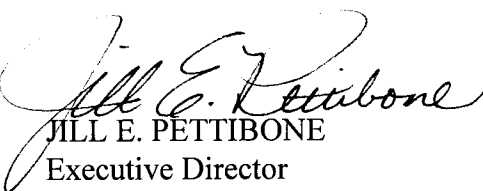
This is an INFORMATION memorandum. Target Audience: DCMC personnel involved in Value Engineering (VE) or in processing VECPs.

Reference DCMC Memorandum No. 97- 56, Use of Management Councils for Value Engineering (POLICY).

The Director, Defense Procurement has issued a memorandum clarifying the policy on pricing VE changes (attached). The memorandum states that neither the FAR nor the DFARS restricts the implementation of a VECP before an equitable adjustment is negotiated. FAR already permits the VE Process Action Team's (PAT's) recommendation that VECPs be implemented with a not-to-exceed price when savings exceed government costs by an amount predetermined by the Program Manager. The intent is to realize a significant unit cost reduction as early as possible when contractor development and implementation costs can be capped.

This clarification was made as a result of the VE PAT's recommendation to rapidly implement VECPs after technical approval by issuing the modifications "unpriced" (like Undefined Contract Actions (UCAs). This approach allows the contractor to implement the change while the VECP is being settled, generating savings that otherwise would be lost. The VE PAT's perception is that this method isn't routinely embraced because of the regulatory preference for all contract actions and modifications to be issued fully priced. The Navy uses this approach to implement VECPs with several controls: (a) limiting its use to VECPs which reduce cost on the instant contract; (b) bounding the problem by establishing a not-to-exceed amount for the contract change, i.e., contractors' allowable development and implementation costs; and (c) establishing a minimum per unit accepted savings requirement for the Government in the modification.

If you have any questions, please contact Mr. Aristides Maldonado (AQOF) at (703) 767-3355 or your District POC: Mr. Ross London (DCMDE) at (617) 753-4244; Mr. Edmund Minassian (DCMDW) at (310) 335-3688; or Ms. Julie Sexton (DCMDI) at (703) 767-2783.



JILL E. PETTIBONE  
Executive Director  
Contract Management Policy

Attachment

cc: MMP



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ACQUISITION AND  
TECHNOLOGY

DP/DSPS

June 10, 1997

MEMORANDUM FOR DIRECTOR OF DEFENSE AGENCIES  
DEPUTY FOR ACQUISITION AND BUSINESS MANAGEMENT,  
ASN(RD&A)/ABM  
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE  
(CONTRACTING), SAF/AQC  
ASSISTANT DEPUTY ASSISTANT SECRETARY OF THE ARMY  
(PROCUREMENT)/DIRECTOR FOR CONTRACTING  
DEPUTY DIRECTOR (ACQUISITION), DEFENSE LOGISTICS  
AGENCY

SUBJECT: Value Engineering Change Proposals - Action to  
Facilitate Implementation

My memorandum of April 10, 1997, authorized a two year deviation from Federal Acquisition Regulation (FAR) requirements to encourage value engineering through increased incentives. The purpose of this memorandum is to clarify the policy on pricing value engineering changes.

The Value Engineering Process Action Team (VEPAT) reported to the Defense Manufacturing Council (DMC) in March, 1997 that a barrier to value engineering implementation is the time required for pricing changes. A second reported barrier is that procurement policies prevent implementation of a value engineering change proposal before pricing is complete.

Neither the FAR nor the DFARS restrict the implementation of a value engineering change proposal (VECP) before an equitable adjustment is negotiated. FAR 43.204 requires contracting officers to negotiate equitable adjustments resulting from change orders in the shortest practicable time. Defense Federal Acquisition Regulation Supplement (DFARS) 217.7401(a)(2) excludes VECs from the restriction on the use of undefinitized contract actions.

FAR already permits the VEPAT's recommendation that VECs be implemented with a not-to-exceed price when the savings exceed government costs by an amount predetermined by the Program Manager. The intent is to realize significant unit cost reductions as early as possible when contractor development and implementation costs can be capped.

Eleanor R. Spector  
Director, Defense Procurement

